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Differences in Psychological Strategies of Failed and Operational Business Owners in the Fiji Islands*

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This study investigates the differences between failed and operational businesses from a psychological perspective. The sample included 71 operational and 20 failed business owners from Suva, the capital of Fiji. It was hypothesized that operational business owners more often employ a detailed and long-term planning strategy, whereas failed business owners more often pursue a reactive strategy, that operational business owners set more specific and more difficult goals, and that they have a higher degree of human capital than failed entrepreneurs. The data were analyzed using discriminant analysis. Results confirmed the hypotheses regarding planning and goal specificity.

Introduction

This paper empirically investigates the psychological action strategies, goals, and human capital of business owners who have failed and compare this group to a group of operational business owners (that is, "surviving" or nonfailed

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business owners; we will use the term "operational" in combination with businesses or business owners throughout the text).

Research on small business failure can be divided into studies focusing on external factors and studies focusing on internal factors influencing business failure or survival. Organizational ecology, for example, is concerned with external, or exogenous, factors influencing business survival such as risks engendered by international and national economic conditions and the industry in which these businesses are operating (Everett and Watson 1998). Population ecologists have been examining the life span of large numbers of organizations under varying environmental conditions (for example, Carroll and Hannan 2000; Bruederl, Preisendörfer, and Ziegler 1992; Singh and Lumsden 1990; Hannan and Freeman 1984; Caroll and Delacroix 1982; Staw, Sandelands, and Dutton 1981) and have established lawful relationships between age of businesses (Aldrich and Fiol 1994; Romanelli 1989), size of businesses (Bruederl, Preisendörfer, and Ziegler 1992), and population density (Caroll and Delacroix 1982), on the one hand, and business survival rates, on the other. Though these studies have increased our knowledge on business failure, the ecological approach generally treats business owners as black boxes, at the neglect of psychological, internal, or endogenous factors that may be important predictors of small business failure or success. As Sutton (1990, p. 206) pointed out: "[p]sychological perspectives were used less frequently in theory building and research on the causes and consequences of decline." The distinction between internal and external causes has major practical implications because "if the underlying causes of small businesses are predominantly internal . . . then government policy would be best directed at the level of the firm; for example by providing training and education programs and support agencies. If the underlying causes are predominantly external . . . then government policy would be best directed at changing the economic environment within which small business operates" (Fredland and Morris 1976, cited from (Everett and Watson 1998, p. 371). The aim of the current study is to look at internal factors influencing business failure by investigating psychological differences between failed and operational entrepreneurs from a psychological perspective. Research on this topic is rare, and even more rare is research that actually takes the person of the entrepreneur as a starting point. As Castrogiovanni (1996) notes, "[B]iases toward survey research contribute to this deficiency because non-survivors tend to get excluded from survey research samples" (p. 819). One of the most prominent reasons for this relative absence is the difficulty in finding failed entrepreneurs who are also willing to be interviewed on their former business.

In order to examine the differences between operational small business owners and failed business owners, we focus on psychological strategy process characteristics of business owners according to an approach suggested by Frese, Van Gelderen, and Ombach (2000). Process characteristics refer to how owners formulate and implement a strategy. Frese, Van Gelderen, and Ombach (2000) distinguish five different strategies: (1) reactive, (2) opportunistic, (3) critical point, (4) complete planning, and (5) habit. The two main dimensions that underlie their taxonomy are planning and proactivity.

A reactive strategy is neither characterized by proactivity nor by planning and implies that the business owner is being driven by the situation. A reactive strategy further implies that the owner is not goal oriented and does not actively attempt to influence the situation. An opportunistic strategy is proactive; business owners who use this strategy scan the environment for opportunities. An opportunistic strategy may start out with some form of rudimentary goal setting and planning but may deviate easily from these goals and plans once other opportunities appear (Hayes-Roth and Hayes-Roth 1979). Little planning and goal setting characterize both reactive and opportunistic strategies. However, an opportunistic strategy implies a higher level of proactivity than that of a reactive strategy.

Critical point and complete planning strategies are both proactive and planning oriented. When applying a critical point strategy, one plans for the most difficult, unclear, and important points and acts on these without planning other issues. In contrast, complete planning strategy uses a long time frame to plan ahead, a large inventory of signals, and a clear knowledge and anticipation of error situations. The fifth strategy, habit, cannot really be termed a strategy, but it is a fallback category that applies to people who rely on routines to manage their business.

The approach described in the previous discussion explores what owners do in order to achieve their business goals. According to this approach, small business owners regulate and control their own actions by setting goals and developing action strategies in order to achieve these goals (Frese and Zapf 1994). It is essentially a psychological view on business success and failure because it considers both endogenous short- and long-term business goals (for example, a few days to a few years) and the behavioral strategies to attain them as shown through the owners' actions rather than their written and formalized strategy plans. It is possible to use the level of analysis of owners' strategies (instead of the organizational level) because owners of small and micro businesses usually determine all major decisions of their business themselves, either directly (e.g., because they make the decision and even implement it) or indirectly (e.g., because they employ a person they think is doing a good job or supervise how to do the job).

Acting proactively can lead to changes in the environment, if ever so slightly. For example, if a business owner attempts to satisfy wishes of customers proactively, the customers are more likely to be, in turn, more loyal to his or her business. Consequently, the competitive environment for this owner may become somewhat more munificent. In contrast, acting reactively does not shape the environment, does not involve long-term consequences, does not lead to the development of pre-signals to ward off potential problems, and does not usually result in the development of enough cues to understand and interpret reality. In short, acting reactively is more likely to cause underperformance of the business.

Once a reactive business owner notices that he or she performs worse than his or her competitors, a threat-rigidity process can set in (Staw, Sandelands, and Dutton 1981). In our context, it means that underperformance leads to the experience of stress. Feelings of stress narrow the perceptual field, leading to increased attention to the most salient or dominant environmental cues and signals, which, in turn, exacerbate the reactive responses of business owners. This theoretical view of a vicious cycle explains the empirical finding of a longitudinal study in the Netherlands, which showed that a reactive approach predicted low business performance and that low business performance predicted a reactive approach (Van Gelderen and Frese 1998). Consequently, our first hypothesis is as follows:

> *H1: Failed business owners use Reactive strategy more often than successful business owners do.*

The alternative strategies—complete planning, critical point planning, and opportunistic—are all proactive. In each case, the owners anticipate possible future problems and actively deal with these potential problem situations. In addition, complete planning and critical point planning are different from the opportunistic strategy because the former two share an emphasis on structure, action plans, and goal setting (Frese and Van Gelderen 2000). We assume that these two strategies contribute to success because planning helps to anticipate negative events and allows ready-made back-up plans in case something goes wrong. Additionally, an opportunistic strategy may also be successful because it implies, as both others, a proactive approach to the environment, changing it to become more munificent. Business owners who use a proactive strategy actively attack problems instead of letting them linger, thereby increasing their chance for success. Consequently, higher levels of planning and proactivity should be associated with a lower frequency of failure.

H2: Failed business owners use less complete planning, critical point planning, and opportunistic strategy than successful business owners do.

Apart from adequate strategies, clear and long-term goals are also important. Locke and Latham (2002) identify four mechanisms through which goals regulate human action. First of all, goals direct activities toward those that are most likely to lead to goal fulfillment. Second, goals energize a person to exert effort. Third, goals affect persistence in the face of failure. Finally, goals trigger the use of task-relevant knowledge and strategies. According to goal theory, specific and difficult goals increase performance, whereas no goals, less specific goals or "easy goals" decrease performance (Locke et al. 1981). Therefore, setting high and specific goals is more likely to lead to higher levels of proactivity, which in turn will affect performance positively, as has been shown repeatedly in empirical studies on goal theory (Locke and Latham 2002; Locke and Latham 1990; Locke et al. 1981).

H3: Failed business owners set lower and less specific goals than successful business owners do.

Further prerequisites to develop adequate strategies are sufficient knowledge and a well-developed mental model of the business products, production and marketing processes, its environment, etc. (Gentner and Stevens 1983). This is one of the reasons why high human capital is related to entrepreneurial success and why lack of human capital is related to failure (Gimeno et al. 1997; Bruederl, Preisendörfer, and Ziegler 1992). Human capital (education, development of skills) encourages the development of adequate mental models, which in turn contributes to entrepreneurial success. However, it is very difficult to develop adequate mental models in stress situations. For instance, D'aveni and MacMillan (1990) found that managers of declining firms are prone to deny a crisis in their business; in contrast with managers of successful firms, they tend to focus more on the input environment, shifting, for instance, the blame to suppliers rather than on the output environment, which is harder to control. Thus, as was the case with a reactive strategy, low human capital may, through an underdeveloped mental model and through higher levels of stress, be responsible for a narrow focus on the most salient information at the cost of other information that may also be vital to an organization's survival. This brings us to our final hypothesis:

H4: Failed business owners have a lower degree of human capital than successful business owners do.

Setting: Fiji Islands

The setting of this study is the Republic of Fiji, a nation consisting of more than 300 small islands in the South Pacific at 17 degrees latitude south of the equator and crossing the meridian at 180 degrees longitude. The population is mostly concentrated on one of the three main islands, Viti Levu, which houses the capital, Suva. Fiji's main industries are tourism, sugar cane, and textile, but it has additional potential for small-scale enterprises in the areas of retail, service, agriculture, forestry, and fishing.

One of the biggest impediments to economic growth is the ethnic tension between the two main population groups in Fiji, that is, between indigenous Fijians and Indo-Fijians (De Vries 2002). Poor laborers from mainland India were brought to Fiji at the end of the 19th century and at the beginning of the 20th century by the British, who ruled Fiji until 1974, to work in the sugarcane industry. Although tension is not always visible, the two groups widely differ on religious, economic, and sociocultural grounds. Additionally, indigenous Fijians and Indo-Fijians have distinct stereotypical views of each other (De Vries, 2004), reinforcing the socioeconomic gap between the two groups. The perceived economic successes and political aspirations of the Indo-Fijian population have created overt resentment in the indigenous Fiji population, which has resulted in four political coups: two in 1987, one in 2000, and one in 2006.[1] The first three coups resulted in governments dominated by indigenous Fijians. The coups have also led to repercussions; the 1987 coup, for instance, has led to a reduction in overseas investments, a devaluation of the Fiji-dollar, falling foreign reserves, a reduction in export earnings, and a freeze of aid donors on future aid commitments (Asia Yearbook 1997; Hailey 1988).

One of the main priorities of the indigenous Fijian governments following both coups was to stimulate Indigenous entrepreneurship. Successful Indigenous businesses, it was believed, would lead to a reduction in the disparity between the two ethnic groups and would eventually reconcile the two groups' interests. This line of reasoning is far from irrational. In the South Pacific region, entrepreneurship and its potential for promoting the development of local economies are at the forefront of operational development thinking (Fiji Development Bank 1998; Fairbairn 1988). Several authors have indicated that a strong small business sector encourages economic growth and increases employment (Rauch and Frese 2000; Fairbairn 1988; Loucks 1988). Thus, stimulating entrepreneurship has not only the prospect of stimulating growth in a fragile Island economy; it is also likely to create a more balanced economic structure between the two groups and promote self-reliance of indigenous Fijians (Fairbairn 1988).

Method

Sample

The sample comprised a group of business owners who at the time of study were still operating, and a group of business owners who had ceased operations. We termed these two groups respectively operational and failed business owners. The following selection criteria were used to sample business owners from both groups: First, participants had to be (or have been) the owner of the busi-

[1]The data for this study were gathered just prior to the 2000 coup.

ness. Second, the business had to be established between 1985 and 1995. Third, in order to get a clear overview of the development and success of the business, the business had to have existed for at least three years. Finally, the number of employees of the business had to be more than 1 and less than 50 at any one time during operations.

In our view, business failure implies being forced to cease operations as an organization due to a lack of resources and/or financial distress. This excludes selling one's business, merging, or stopping it because there are better alternatives (which may also include a position as employee). It is usually difficult to locate and motivate failed business owners to participate in research on a topic that is painful or even aversive to them. In our case, failed business owners were located with the assistance of the Fiji Development Bank (FDB). A register of loans that were written off was used in order to check if a business owner had gone out of business. For privacy reasons, an employee from the FDB contacted the failed business owners by telephone. The potential participants were informed that the interview would be conducted by someone from outside the bank, that no personal data would be communicated to the bank, and that the researchers were interested in the reasons why the failed entrepreneurs went out of business and in suggestions to help government and banks prevent entrepreneurs from going bankrupt. In the case when a failed business owner was willing to participate, he or she was contacted by one of the researchers. Unfortunately, we do not have data on how many failed business owners refused to participate because the employees of the FDB did not record the rejection rate.[2]

For the group of operational business owners, the yellow pages, registers of the Fiji Small Business Advisory Unit, and the Fiji Trade and Investment Board were used to locate the firms. Of all the participants who fit the criteria, 83 percent agreed to participate. Together, the two samples included 20 (18 male, 2 female) failed business owners and 71 operational entrepreneurs (64 male and 7 female). Data from the FDB show that the rate of success of Indo-Fijian and indigenous Fijian entrepreneurs differs considerably (FDB, personal communication). For instance, in the period between 1999 and 2002, although 376 indigenous Fijian versus 671 Indo-Fijian business plans got approved, 127 of the indigenous Fijian versus 94 of the Indo-Fijian business plans in the same period failed. If we compare approvals to write-offs in the same period, 50 percent of the amount of the approved loans to indigenous Fijians was written off versus 20 percent of the amount approved to Indo-Fijians. Therefore, it is not surprising that we were not able to obtain a fully matched sample. In the operational group there were 21 percent indigenous Fijians versus 79 percent nonindigenous Fijians (Indo-Fijians and others). In the failed group, the addresses of which were provided by the FDB, it was even harder to obtain nonindigenous Fijians: 90 percent of the owners were of Fijian descent and 10 percent of non-Fijian descent. Consequently, it was impossible to conduct separate analyses for the ethnic groups because sample size prohibits meaningful comparison.[3] All participants were (former) owners of formal and registered businesses that employed

[2]We were unable to obtain financial data on failed entrepreneurs because of the sensitive nature of the subject.

[3]There was a significant interaction between ethnic groups and failed and operational entrepreneurs ($\chi^2 = (1, N = 91) = 32.03, p < .01$).

between 1 and 50 people. The mean age of the failed businesses was 7.7 years and the participants' age was 46 years on average. The group of operational businesses existed on average for 7.1 years. The mean age of these participants was 41 years.

Procedure

Data were gathered by means of a structured interview, which took between 60 and 90 minutes. Interviews were coded on the same day as they were taken. Forty randomly selected interviews were coded twice to check for inter-rater reliability. Inter-rater reliabilities were determined with Pearson's r for the scales, Spearman's r for the ordinal variables, and Cohen's Kappa (Cohen 1968) for nominal variables according to a formula by Landis and Koch (1977).

Operationalization

Strategies (reactive, habit, opportunistic, critical point, and complete planning) were measured based on the operationalization by Frese, Van Gelderen, and Ombach (2000) using a structured behavior event interview procedure (Spencer and Spencer 1993). For the two groups, slightly different interviews were used. Operational business owners were asked about the strategies they employed with regard to their two main operational business goals. For the failed group, the retrospective questions regarded the two most important goals the business owner had at any one time when still in business. Both groups were asked about their subgoals, how they went (or had gone about) about achieving them, and what they had done to achieve their goals. To facilitate diagnosis of the strategies, prompts were used to stimulate the participants to be as concrete as possible. Furthermore, care was taken not to suggest any terminology that was related to our concepts of the strategies (e.g., "planning," "active").

First, two nominal variables—for each main goal one—were constructed, each consisting of five answering categories reflecting the five different planning strategies. Thus, for each of the two goals, only one of the five strategies could be rated. The inter-rater reliability of the two raters coding the strategies was an acceptable 0.65. In the rare cases a participant did not clearly have a second business goal or basically repeated what he said about his first business goal, the missing value was substituted by the value on the first goal. The five strategy indexes were constructed via a dummy variable procedure. The scores for both goals were added for each strategy; thus, each person could get a score of 0, 1 or 2 on each of the strategy characteristics. As each score was either a 1 (applicable) or a 0 (not applicable), the final strategy scores could range from 2 (that is, using the same strategy for the two goals) to 0 (that is, this strategy not applicable regarding either one of the two goals).

Goal Setting

During the interview, participants were asked about the level of detail of their goals, the difficulty of their goals, and the number of obstacles they expected to encounter. For the failed group, this pertained to the obstacles they had encountered. The interviewers double rated all questions and participants were given a score on a five-point Likert scale. Inter-rater reliabilities for goal specificity and goal difficulty were 0.74 and 0.85, respectively.

Human Capital

Two indexes for measuring human capital were constructed: an education index and an experience index. The experience index consisted of experience as a business owner, previous experience in the same business sector, and, in order to ascertain whether or not the entrepreneur was already acquainted with business in childhood, parental entrepreneurial experience. Formal education distinguishes between primary school, secondary school, Fiji Institute of Technology/college, and university. The Fiji Institute of Technology is a college-type degree that provides any type of formal and full-time education that one can engage in after finishing high school, aside from university. It is of a lower educational level than the university and is more technology oriented.

Analysis

Discriminant analysis was employed to differentiate the two groups of failed and operational entrepreneurs. We tested the significance of the discriminant function using Wilks's lambda. To interpret the amount of explained variance, the square of the canonical correlation, which is equivalent to the eta square in the analysis of variance, was computed. Classification results were obtained to determine how many people were actually classified correctly based on the variables included in the disriminant function. According to Stevens (1992), one should take caution when interpreting the discriminant variables when the *N*/*p* ratio is lower than 20 to 1. Stevens (1992) suggested interpreting the standardized canonical discriminant function coefficients as well as the correlations between variables and the discriminant function (the latter is parallel to factor loadings in factor analysis) when the *N*/*p* ratio is below 20 to 1. As our *N*/*p* ratio in this research was 11 to 1, both methods of interpreting the discriminant results were used. Those variables in the discriminant function with the highest correlations between the discriminant function and the discriminant variables as well as the variables with the highest standardized coefficients are the variables on which the two groups are separated best (Stevens 1992).

Because of the ipsative nature of the strategy variables, it is impossible to conduct discriminant analysis using all of the strategy variables. As noted previously, the habit strategy is not really a strategy but a fallback category consisting of behavior based on routine operation procedures. We found habit not to be related to whether the business had failed or survived ($r = 0.05$, $p = .68$). Therefore, for methodological and theoretical reasons, it was decided to omit habit from the discriminant analysis.

Results

To test the differences between the operational entrepreneurs and the failed entrepreneurs, a discriminant analysis was employed, in which we expected operational entrepreneurs to score higher on complete planning, critical point, and opportunistic strategies, goal specificity and goal difficulty and human capital (education and experience), and to score lower on reactive strategy. Overall, a significant Wilks's lambda for the discriminant function was found ($\Lambda = 0.74$, $p < .01$). The amount of explained variance was 0.26. Classification results showed that 80.2 percent of the subjects were classified correctly by the discriminant function. This means that the psychological variables used in this study successfully discriminate between these two groups of business owners.

The standardized canonical discriminant function coefficients (lower left column in Table 1) shows that the variables that contribute most in distinguishing between the failed and operational small business owners are goal specificity, reactive strategy, experience, opportunistic strategy, and complete planning. Goal difficulty, critical point planning, and educational level do not make a strong contribution in the discrimination between the two groups. Substantive interpretation of the discriminant function was obtained by means of the correlations between the variables and the discriminant function and the group

Table 1
Distinction between Failed and Operational Business Owners on the Predictor Variables Using Discriminant Analysis

	Eigenvalue	R^2	Chi²	Wilks' Λ	*p*
Discriminant Function	0.36	0.26	24.97	0.74	0.00

Functions at group centroids:
Group mean failed business owners: 1.09 ($N = 20$)
Group mean operational business owners: −0.32 ($N = 71$)
80.2 percent correctly classified

	Coefficients[a]	Correlations[b]	Wilks's Λ[c]	*F*	*p*
Reactive	0.48	0.65	0.87	12.96	0.00
Opportunistic	0.40	0.25	0.98	1.97	0.16
Critical Point	−0.11	−0.29	0.97	2.49	0.12
Complete	0.25	−0.43	0.94	5.74	0.02
Specificity	−0.59	−0.70	0.85	15.16	0.00
Difficulty	0.14	0.27	0.98	2.22	0.14
Experience	−0.42	−0.51	0.92	8.01	0.01
Education	−0.02	−0.12	0.99	0.42	0.52

[a]Standardized canonical discriminant function coefficients.
[b]Pooled within-groups correlations between the variables and the discriminant function.
[c]Tests the equality of group means on the variables (with $df1/df2 = 1/86$).

means on the variables. Strong negative correlations ($r < -0.40$) between the discriminant function and the variables were found for goal specificity, experience, and the complete planning strategy variable. A strong positive correlation ($r > 0.40$) was found between the discriminant function and reactive strategy. The test of equality of group means on the variables confirmed the given pattern. Operational business owners scored higher than failed business owners on goal specificity (resp. $m_o = 0.16$, $sd_o = 0.80$ vs. $m_f = -0.63$, $sd_f = 0.79$, $\Lambda = 0.85$, $F(1,86) = 15.16$, $p < .01$), experience (resp. $m_o = 2.35$, $sd_o = 0.75$ versus $m_f = 1.80$, $sd_f = 0.83$, $\Lambda = 0.92$, $F(1,86) = 8.01$, $p < .01$), and complete planning (resp. $m_o = 0.88$, $sd_o = 0.92$ versus $m_f = 0.35$, $sd_f = 0.67$, $\Lambda = 0.94$, $F(1,86) = 5.74$, $p = .02$), and operational business owners scored lower than failed business owners on reactive strategy (resp. $m_o = 0.60$, $sd_o = 0.82$ versus $m_f = 0.12$, $sd_f = 0.41$, $\Lambda = 0.87$, $F(1,86) = 12.96$, $p < .01$). The discriminant analysis shows that operational entrepreneurs set more specific goals, have more experience, apply a complete planning strategy more often and a reactive strategy less often than failed entrepreneurs. No significant differences between operational and failed entrepreneurs were observed on the means of education, goal difficulty, critical point planning, and reactive strategy (results of the tests of equality of group means for these variables are reported in Table 1).

Discussion

This study compared operational entrepreneurs with failed entrepreneurs on strategy process characteristics, goal setting, and human capital. An attempt was made to distinguish psychological factors that could discriminate between these two groups. The discriminant analysis, differentiating between operational and failed entrepreneurs, showed strong support for the hypotheses regarding complete planning and reactive strategies, but not for critical point planning and opportunistic strategy. Failed entrepreneurs use complete planning less frequently and reactive strategies more frequently than those entrepreneurs who are still in business. No effects were found for critical point and opportunistic strategies.

Our second hypothesis on goal difficulty and goal specificity stated that failed entrepreneurs had set lower and less specific goals than did operational entrepreneurs. This hypothesis was confirmed for goal specificity, but not for goal difficulty. Operational entrepreneurs set more specific goals than failed entrepreneurs but did not set more difficult goals. One reason for the lack of support for goal difficulty may be attributed to our operationalization. In this study, goal difficulty was assessed by asking the entrepreneur how difficult he thought it was to reach his main business goals. It was therefore the perception of the business owner accounting for the difficulty of the goal. This perception may not reflect the actual goal difficulty level.

Finally, there was equivocal support for our hypotheses on human capital; failed entrepreneurs had somewhat less business experience than operational entrepreneurs, but the function coefficient for experience was not high and, in addition, the coefficient for education was not significant.

This study has the following limitations. The most important limitation is the retrospective nature of this study. Due to the time lag between the gathering of the data and the period that the failed entrepreneurs still held their businesses, it is possible that the business owners were not accurate in their reporting behavior. We attempted to limit this problem by holding the time lag between failure and data collection to a maximum of three years. The interviews about past events might have contributed to reinterpretations on the part of the failed business owners. However, there are reasons to believe that this is less likely. Attribution research shows that people have self-serving assignment of blame (Kingdon 1967). If entrepreneurs reinterpreted past events, the most likely reinterpretations would be to make outside events, not their own action strategies, responsible for the failure. However, we found precisely action strategies to be the most important discriminators between the two groups.

A second limitation is the fact that the interviewers knew in advance whether they had to interview an operational entrepreneur or if they had to interview a failed entrepreneur. Although this is impossible to prevent in this kind of study, it may have contributed to interviewer bias. However, the interviewers were trained to conduct structured interviews. Research shows that this kind of training is less likely to result in interviewer errors (Arvey and Murphy 1998). Consequently, we do not believe this will have resulted in a considerable impact on the results. Additionally, there are some factors that may have mitigated the positive effects found.

One problem of our design was the fact that the comparison group of operational entrepreneurs is not a pure group. We were therefore careful to call this group *operational* entrepreneurs and not *successful* entrepreneurs. Simply being in business is not necessarily a sign of success. *Failing* organizations can still be operative for quite a long time because there are other reasons to continue on with the organization, such as deriving prestige from self-employment (DeTienne, Shepherd, and DeCastro 2002; McGrath 1999; Meyer and Zucker 1989). This problem diminishes the likelihood to find significant differences between the two groups. Another factor decreasing the chance to find significant result is the size of our sample; the group of failed entrepreneurs only consisted of 20 participants. Therefore, the test conducted in this study is fairly conservative; with a bigger sample and a clearer distinction between failed and successful business owners, stronger results would have been obtained. The fact that we did find interesting and statistically significant differentiators between the two groups adds to the strength of the study.

In general, it would have been better to get longitudinal data in which actual prediction of failure can be calculated and in which no retrospective reporting needs to be done. However, dropout rates and nonresponse make such studies very hard to conduct, which may explain the low numbers of longitudinal studies in this field of research and the even lower number of longitudinal studies in developing countries.

This study has a number of implications for theory and practice. As stated in the introduction, when reviewing factors contributing to small business survival or failure we should make the distinction between internal factors, attributable to the firm, and external factors, attributable, for example, to industry characteristics or population density. This distinction has important policy implications. "If most of the heterogeneity across firms is attributable to factors specific to the industry, there is little that public policy can do in reducing firm failure rates. On the other hand, if firm-specific factors result in heterogeneity with respect to survival rates, an important implication is that public policy can have a positive impact in reducing the likelihood of failure" (Audretsch, Houweling, and Thurik 1997, p. 1). The empirical evidence provided in this paper suggests that internal factors can have a considerable influence on survival, and public policy should thus (also) be directed at finding instruments of small business support to increase the likelihood of survival.

The implications for developing countries in general, and Fiji in particular, are clear. If endogenous and psychological variables are important in survival and success, most effort should be devoted by governments and banks in selecting and training potential entrepreneurs on planning and goal-setting strategies. In Fiji, in which indigenous Fijians have less experience with entrepreneurship and, consequently, are perhaps more likely to fail as entrepreneurs, such selection and training efforts have great urgency. As De Vries (2004) shows, not only do Indo-Fijians stereotype indigenous Fijians as lazy, uncompetitive, and less ambitious, but indigenous Fijians also share this stereotype of their own ingroup, although self-ratings show that they think it is not true of themselves. Group stereotypes such as these may have a negative impact of lowering social expectations and increasing anticipations of failure of indigenous Fijians in banks, the government, and the community as a whole, thereby inducing a negative spiral of self-fulfilling failure beliefs. This, in turn, may exacerbate the relations between the ethnic groups in Fiji, creating jealousy and resentment of Indo-Fijians in indigenous Fijians, and fear and reproach of indigenous Fijians in Indo-Fijians. The ensuing conflict cycle, which in Fiji has a sociocultural as well as an economic background (De Vries 2002), can be abated by adequate and systematic selection and training efforts to aid individual entrepreneurs and reduce the chance of business failures.

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